

Message Text

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C O N F I D E N T I A L SECTION 01 OF 03 LONDON 10476

E.O. 11652: GDS

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SUBJECT: GOVERNMENT FACES A LONG, TOUGH SUMMER

REF: (A) LONDON 10202; (B) LONDON 10281; (C) LONDON 8350;
(D) LONDON 7043; (E) LONDON 9515; (F) LONDON A-441;
(G) LONDON 10210

SUMMARY - IN EARLY JULY, WHEN THOUGHTS OF BRITONS, AND
ESPECIALLY PARLIAMENTARY BACKBENCHERS, TURN TO HOLIDAY
ACTIVITY, THE CALLAGHAN GOVERNMENT CAN EXPECT LITTLE RE-
SPITE ON EITHER THE PARLIAMENTARY OR ECONOMIC FRONTS. IN
ADDITION TO DECIDING HOW PUBLIC EXPENDITURE CAN BE RE-
DUCED AT AN ACCEPTABLE POLITICAL COST, THE GOVERNMENT
MUST CONTEND WITH: A) A FULL PLATE OF PENDING LEGISLATION
-- MUCH OF IT CONTENTIOUS; B) A NARROW AND SHIFTING WORK-
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ING MAJORITY IN PARLIAMENT; AND C) AN INCREASINGLY ASSER-

TIVE OPPOSITION. NOTWITHSTANDING THESE OBVIOUS AND, IN THE CASE OF PUBLIC EXPENDITURE, CRITICAL PROBLEMS, WE CONCLUDE THAT GENERAL ELECTIONS IN THE NEXT SIX TO NINE MONTHS ARE HIGHLY UNLIKELY. HOWEVER, WE CANNOT ENTIRELY DISCOUNT THE POSSIBILITY THAT TACTICAL MISCALCULATION COULD UPSET THIS OUTLOOK, PRECIPITATING THE ELECTION THAT FEW PEOPLE WOULD WISH TO SEE. REGARDING PUBLIC SPENDING REDUCTIONS, THE QUESTIONS APPEAR TO BE WHEN, HOW MUCH AND WHERE, RATHER THAN WHETHER THEY WILL OCCUR. END SUMMARY.

1. AS SUNSHINE CONTINUES UNABATED AND TEMPERATURES REMAIN UNCHARACTERISTICALLY HIGH, THOUGHTS OF MOST BRITONS TURN INEVITABLY TO THE SUMMER HOLIDAY. NOWHERE IS THIS TENDENCY STRONGER THAN IN PARLIAMENT. BACKBENCHERS ON BOTH SIDES OF THE HOUSE OF COMMONS HAVE BECOME RESTIVE AS THE DESIRE TO MIGRATE TO BEACHES OF SPAIN, THE MOUNTAINS OF SWITZERLAND OR THE SPLENDORS OF BLACKPOOL INTENSIFIES. FOR THE CONSERVATIVES, THE SATISFACTION OF HAVING HARASSED THE GOVERNMENT BY DISRUPTING "USUAL BUSINESS CHANNELS" (REF A) PROVIDED SOME RELIEF, BUT IT IS NOT LIKELY TO BE DURABLE IN THE SWELTERING HEAT OF WESTMINSTER PALACE AS THE SUMMER WEARS ON. BY DELAYING THE GOVERNMENT'S LEGISLATIVE PROGRAM THEY ARE ONLY EXTENDING THEIR OWN MISERY, AND THIS REALIZATION WILL COME QUICKLY, IF IT HAS NOT ALREADY ARRIVED. LABOR BACKBENCHERS, FEELING THE HEAT AND EFFECTS OF THE TORY GAME, ARE MANIFESTING THEIR DISQUIET BY SQUABBLING AMONG THEMSELVES AND WITH THEIR LEADERS. TEMPER OF THE MPS FROM THE MINOR PARTIES -- EXCEPT THE LIBERALS WHO ARE ENGAGED IN THEIR OWN EXTRA-PARLIAMENTARY BLOODLETTING RITUAL TO SELECT A NEW LEADER -- ARE ALSO SHOWING THE STRAIN. THE CLOUDS OF BACKBENCH DISCONTENT ARE GROWING AND MAY PROMISE SUMMER STORMS.

2. FROM THE GOVERNMENT'S PERSPECTIVE, THERE IS LITTLE RELIEF IN SIGHT. ALTHOUGH THE TORIES' RECENT RESTORATION OF "LIMITED" PAIRING ARRANGEMENTS (REF B) AND THE ROTHERHAM BY-ELECTION RELIEVED THE PRESSURE, THE LONG INVENTORY OF PENDING LEGISLATION -- MUCH OF IT VIGOROUSLY OPPOSED BY THE CONSERVATIVES -- SUGGESTS THE GOVERNMENT'S CHOICES ARE BETWEEN ABANDONING A MAJOR PORTION OF ITS CONFIDENTIAL

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LEGISLATIVE PROGRAM AND KEEPING PARLIAMENT IN SESSION IN THE HOPE THAT THE HEAT WILL GENERATE ENOUGH STEAM TO PUSH THE PROGRAM THROUGH. THE LATTER ALTERNATIVE, OF COURSE, RISKS RUPTURING THE PARLIAMENTARY BOILER, WHILE THE FORMER COULD SEVERELY DAMAGE THE LABOR MACHINE. THERE IS, MOREOVER, NO ASSURANCE THE TORIES WILL NOT RESUME THEIR TACTICS OF HARASSMENT OVER SOME REAL OR FANCIED SLIGHT.

3. TO US IT WOULD APPEAR THE GOVERNMENT HAS LITTLE OPTION BUT TO PUSH ON, WHILE REMAINING PARTICULARLY ALERT TO INDICATIONS OF BACKBENCH DISQUIET. FIRST, EVERY MANIFESTO PROMISE IMPLEMENTED TIGHTENS THE BONDS THAT HOLD THE LABOR MOVEMENT TOGETHER, AND THIS COHESION COULD BECOME CRITICAL WHEN, AS WE ANTICIPATE, REDUCTIONS IN THE 1977/78 BUDGET ARE ANNOUNCED. SECOND, THE COMBINED OPPOSITION LACKS ANY UNIFYING GOAL OR IDEOLOGY, SO THE OFTEN CONFLICTING INTERESTS OF THE FIVE PARTIES CAN BE EXPLOITED

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TO THE GOVERNMENT'S ADVANTAGE (REF A). WE EXPECT, THEREFORE, THE CURRENT SESSION OF PARLIAMENT WILL CONTINUE THROUGH JULY, SPILLING OVER INTO AUGUST, AND THAT IT WILL

BE TEMPESTUOUS. IT IS ALSO PROBABLE THAT THIS PARLIAMENT WILL BE RECALLED IN OCTOBER, FOLLOWING THE CONFERENCE SEASON, TO TIE UP LOOSE ENDS BEFORE THE NEW PARLIAMENT MEETS IN NOVEMBER. WE ANTICIPATE, IN ADDITION, THE GOVERNMENT WILL HAVE TO IMPOSE GUILLOTINE (CLOTURE) MEASURES TO PREVENT CONSERVATIVE FILIBUSTER OF LEGISLATION. TORIES CONSIDER ABHORRENT, E.&. THE SHIPBUILDING AND AIRCRAFT INDUSTRIES NATIONALIZATION BILL, THE DOCK WORK REGULATION BILL, THE DEVELOPMENT LAND TAX BILL, THE BILL PHASING OUT PAY BEDS IN NHS HOSPITALS AND THE EDUCATION BILL WHICH WOULD FORCE LOCAL AUTHORITIES TO ADOPT COMPREHENSIVE EDUCATION. CONFIDENTIAL

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CATION.

4. AT THIS POINT THERE WOULD APPEAR TO BE NO REASON, SHORT OF SERIOUS TACTICAL MISCALCULATION, WHY THE GOVERNMENT CANNOT SUCCEED. IT HAS 317 SEATS (BUT ONLY 313 VOTING MPS WITH ONE MORE EXPECTED AS A RESULT OF A JULY 15 BY-ELECTION) ON ITS OWN AND TWO LOYAL SUPPORTERS OUTSIDE THE PARTY, FOR A TOTAL OF 319. THE COMBINED OPPOSITION HAS 316. THERE ARE, HOWEVER, INDICATIONS THAT THE GOVERNMENT'S NEW AND RELATIVELY INEXPERIENCED CHIEF WHIP, MICHAEL COCKS, HAS ALREADY ERRED -- MANY BLAME HIM FOR THE APPARENT VIOLATION OF THE PAIRING PROCEDURES WHICH PROVOKED THE TORY BOYCOTT OF "USUAL CHANNELS" (REF C) -- AND HIS TOUCH REMAINS SOMEWHAT UNCERTAIN. LABOR BACKBENCHERS WITH WHOM WE HAVE SPOKEN HAVE ALSO MANIFESTED SIGNS OF RESENTMENT OVER CALLAGHAN'S HANDLING OF THE PARLIAMENTARY LABOR PARTY (PLP). HIS HAND RESTS MORE HEAVILY ON THE TILLER THAN DID THAT OF WILSON, AND SOME HAVE CREDITED THE GOVERNMENT'S POLITICALLY EMBARRASSING JUNE 28 DEFEAT ON A SUBSTANTIVELY INSIGNIFICANT PROCEDURAL MOTION RELATING TO A DECISION TO DELAY CHILD BENEFITS TO HIS MISHANDLING OF THE PLP. BACKBENCH RESENTMENT, OF COURSE, CAN BE ATTRIBUTED IN PART TO CONSERVATIVE HARASSMENT OF THE GOVERNMENT, BUT HOW MUCH? BOTH THE ABOVE INCIDENTS STARKLY ILLUSTRATE THE PARLIAMENTARY SHOALS THAT THE GOVERNMENT MUST NAVIGATE IF IT IS TO REALIZE ITS CURRENT LEGISLATIVE GOALS.

5. BARRING SERIOUS ERROR IN THE GOVERNMENT'S MANAGEMENT OF PARLIAMENT, GENERAL ELECTIONS IN THE FORESEEABLE FUTURE -- THE NEXT SIX TO NINE MONTHS -- SEEM HIGHLY UNLIKELY. OF THE FIVE FACTORS WE IDENTIFIED EARLIER AS CENTRAL TO ANY DECISION BY CALLAGHAN TO CALL AN ELECTION (REF D), FOUR ARE CURRENTLY ADVERSE. CLEARLY, NEITHER HE, THE PARTY NOR THE TRADE UNIONS WISH TO GO TO THE POLLS IN THE NEAR TERM. THE CONSERVATIVE MPS, WHILE MUCH MORE AGGRESSIVE IN RECENT WEEKS, STILL APPEAR TO BE OF TWO

MINDS ABOUT GOING TO THE ELECTORATE; THE TORY LEADERSHIP, HOWEVER, HAS STRESSED ITS DESIRE TO GO TO THE POLLS. THE LIBERALS, AFTER AN EXTENDED PERIOD OF BAD PRESS, A SERIES OF HUMILIATING BY-ELECTION DEFEATS AND WITH NEW LEADER-
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SHIP, ARE NOT PREPARED TO RISK POLITICAL EXTINCTION. THE ULSTER UNIONISTS ARE DIVIDED AND PREOCCUPIED WITH EVENTS IN NI, AND HAVE LITTLE REASON TO SEEK AN ELECTION. ONLY THE NATIONALIST PARTIES, THE SNP AND PLAID CYMRU, ARE LIKELY TO FIND THE MURKY POLITICAL WATERS WORTH FISHING IN. ACCORDINGLY, WE BELIEVE A NO-CONFIDENCE MOTION, SHOULD THE TORIES TRY AGAIN, IS UNLIKELY TO PROSPER DURING THIS PARLIAMENT. CONVERSELY, THERE IS LITTLE DOUBT THAT A GOVERNMENT-SPONSORED CONFIDENCE MOTION, SHOULD AN UNEXPECTED REVERSE ON PENDING LEGISLATION NECESSITATE, WOULD BRING ERRANT LABOR MPS BACK INTO LINE, ALLOWING THE GOVERNMENT TO SLIDE TO VICTORY ON LUBRICATION SUPPLIED BY LIBERAL AND OTHER ABSTENTIONS.

6. THE NATIONALIZATION BILL PRODUCED AN UNUSUAL (SOME WOULD SAY UNPRECEDENTED) DISPLAY OF IREWORKS, AND IT'S STILL NOT THROUGH THE FINAL STAGES. THE PUBLIC SPENDING ISSUE (REF E), HOWEVER, IS POTENTIALLY EXPLOSIVE. THERE SEEMS TO BE LITTLE DOUBT, AT LEAST AT THIS POINT, THAT CALLAGHAN AND HIS ECONOMIC TEAM INTEND TO CUT PUBLIC EXPENDITURE IN 1977/78. THERE IS EVEN LESS DOUBT THAT THE CONSERVATIVES WILL SUPPORT SUCH CUTS, THOUGH PERHAPS ONLY TACITLY BY ABSTENTION. THE QUESTIONS, THEN, CENTER ON: A) THE TIMING OF THE ANNOUNCEMENT; B) THE MAGNITUDE OF THE ACTUAL REDUCTIONS; AND C) WHERE THE CUTS WILL BE ABSORBED.

7. THE PLP'S SENSITIVITY TO PUBLIC SPENDING CUTS, ES-

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PECIALLY ON THE SOCIAL SERVICES SIDE, WAS DRAMATICALLY
ILLUSTRATED JUNE 28 WHEN BACKBENCH ANGER OVER THE GOVERN-
MENT'S DECISION TO DELAY IMPLEMENTING A LONG-PROMISED
SUPPLEMENTARY CHILD BENEFIT SCHEME FORCED THE GOVERNMENT
TO ACCEPT A HUMILIATING DEFEAT ON AN ADJOURNMENT MOTION.
WHILE CALLAGHAN'S HANDLING OF THE PLP NO DOUBT PLAYED A
PART IN THIS DEFEAT, AS SUGGESTED ABOVE, THE ROOT CAUSE
OF THE BACKBENCH REVOLT WAS THE DECISION TO DELAY IN-
CREASED EXPENDITURES. THE POLITICAL AND CHRONOLOGICAL
CONSTRAINTS ON THE GOVERNMENT'S FREEDOM TO REDUCE SPEND-
ING -- THE IMPACT OF SUCH DECISION ON THE "SOCIAL CON-
TRACT," THE NEED FOR THE SECOND STAGE OF THE WAGE RE-
STRAINTS TO GATHER MOMENTUM, THE TIMING OF THE TUC AND
LABOR PARTY CONFERENCES, AND THE LABOR MOVEMENT'S PHOBIA
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OF PERCEIVED EXTERNAL PRESSURES -- HAVE BEEN DISCUSSED
PREVIOUSLY (REFS E AND F), AND STILL OBTAIN. THEIR INTER-
PLAY, NOT JUST THE STARK ECONOMIC FACTS OF LIFE, WILL
DICTATE THE TIMING OF THE GOVERNMENT ANNOUNCEMENT. THE
PRESS HAS SPECULATED THAT THE GOVERNMENT WILL INTRODUCE
A WHITE PAPER ANNOUNCING THE CUTS LATER THIS MONTH, AND
THERE ARE PLENTY OF SIGNS THAT THE GOVERNMENT WILL MOVE
SHORTLY. THE MOST NOTABLE INCLUDE CALLAGHAN'S STATEMENT

TO PARLIAMENT THAT IT WOULD BE HELPFUL IF DISCUSSIONS ON 1977/78 PUBLIC EXPENDITURE REDUCTIONS COULD BE COMPLETED BY THE END OF JULY (REF G), CURRENT CONSULTATIONS BETWEEN TREASURY AND THE SPENDING AGENCIES, AND CHANCELLOR HEALEY'S RECENT REQUEST FOR A JULY 12 MEETING WITH THE TRIBUNE GROUP TO DISCUSS EXPENDITURES LEVELS. HEALEY ALSO PLANS TO MEET WITH THE RIGHT-WING MANIFESTO GROUP AND THE PARLIAMENTARY LABOR PARTY (PLP) NEXT WEEK. ON THE BASIS OF THESE INDICATIONS, IT SEEMS EVIDENT THAT THE GOVERNMENT IS SEEKING TO MINIMIZE THE POLITICAL RISKS THAT WOULD FLOW FROM AN EARLY ANNOUNCEMENT OF 1977/78 CUTS. THE POSSIBILITY OF A LATER ANNOUNCEMENT, HOWEVER, STILL CANNOT BE DISCOUNTED.

8. AS TO THE MAGNITUDE OF THE ANTICIPATED 1977/78 REDUCTIONS, PUBLISHED SPECULATION HAS FALLEN BETWEEN ONE AND TWO BILLION POUNDS (2 TO 4 PERCENT OF PLANNED SPENDING). THE FINAL DETERMINATION, OF COURSE,

MUST BE RATIFIED BY THE CABINET. SPECULATING, WE WOULD GUESS THAT THE CUTS WILL BE FELT PRETTY MUCH ACROSS THE BOARD, AND WILL INCLUDE DEFENSE. THE ONE POSSIBLE EXCEPTION COULD BE THE NATIONAL ENTERPRISE BOARD (NEB), WHOSE BUDGET MIGHT BE INCREASED. SUCH A MOVE WOULD WEAKEN LEFT-WING OBJECTIONS TO CUTS ELSEWHERE, AND THE RESOURCES FREED WOULD BE USED FOR INDUSTRIAL INVESTMENT. AS IN THE PAST, THE GOVERNMENT WILL PROTECT DEFENSE FROM THE WORST EFFECTS OF THE CUTS, BUT THE POLITICAL REALITIES DICTATE THAT THE DEFENSE EXPENDITURES CANNOT ENJOY TOTAL IMMUNITY FROM THE BUDGETARY AXE. POLITICAL CONSIDERATIONS ALSO MAKE CUTS IN SOCIAL OUTLAYS (ESPECIALLY TRANSFER PAYMENTS) AND HOUSING EXCEEDINGLY DIFFICULT. WE SUSPECT, THEREFORE, THAT PHYSICAL INFRASTRUCTURE PROGRAMS -- HIGHWAYS, PUBLIC BUILDINGS, DRAIN-

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AGE -- AND GOODS AND SERVICES ARE LIKELY TO CARRY A DISPROPORTIONATE SHARE OF THE BURDEN. BUT SUCH CUTS WOULD BE OPPOSED BY THE UNIONS MOST DIRECTLY AFFECTED, SO EVEN IN THESE AREAS THERE ARE REAL POLITICAL CONSTRAINTS.

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